

INCOMING TELEGRAM

Department of State

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Action

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FOR ANNUAL MEETINGS IBRD AND IMF, FEDREP SENDING STRONG DELEGATION HEADED BY ECONOMICS MINISTER ERHARD AND BUNDESBANK PRESIDENT BLESSING. ERHARD PLANS VISIT EIGHT COUNTRIES MIDDLE AND FAR EAST (REPORTED SEPARATELY) AFTER CLOSE THESE SESSIONS.

GERMAN POSITION ON MAJOR AGENDA ITEMS FOR NEW DELHI BELIEVED GENERALLY KNOWN TO DEPT, OWING DISCUSSIONS WHICH HAVE OCCURRED IN EXECUTIVE BOARDS. PRESUME DEPT KNOWS THAT FEDREP WILL NOT SEEK INCREASE ITS IMF QUOTA BEYOND UNIFORM PROPORTIONAL INCREASE THAT MAY BE GENERALLY ADOPTED. WOULD, HOWEVER, BE WILLING DISCUSS SUCH CHANGE IF SUBJECT INITIATED BY OTHER COUNTRIES.

ALTHOUGH GERMANS UNCERTAIN EXTENT TO WHICH U.S. DESIRES DISCUSS IDA AT NEW DELHI, CABINET-LEVEL MEETING THIS WEEK PRODUCED LESS NEGATIVE STAND THAN FORMELY TAKEN. RANKING FINANCIAL AUTHORITIES REGARD TRANSACTIONS OF PROPOSED INSTITUTION ESSENTIALLY GRANTS RATHER THAN LOANS AND STILL FEEL FEDREP NOT IN POSITION PARTICIPATE GRANT PROGRAM, WHETHER MULTILATERAL OR BILATERAL. NEVERTHELESS, FEDREP, APPARENTLY NOT WILLING BE LEFT OUT, WOULD BE WILLING MAKE SMALL CONTRIBUTION. GERMANS LAY GREAT STRESS ON THEIR DECIDED PREFERENCE FOR MULTILATERAL METHODS AND INTITUTIONS.

DESPITE MAJOR EMPHASIS MULTILATERAL MEANS, GERMAN AUTHORITIES HAVE GIVEN INCREASED RECOGNITION RECENT WEEKS TO NECESSITY EXPANDED SCOPE GERMANY'S OWN PROGRAM EXTERNAL ASSISTANCE. CONFIDENTIAL DISCUSSIONS WITH TOP OFFICIALS ECONOMICS MINISTRY, FINANCE MINISTRY, BUNDESBANK, AND KREDITANSTALT FUER WIEDERAUFBAU

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-2- 700, SEPTEMBER 25, 1 PM FROM BONN

(KFW) PAST FEW DAYS HAVE CONFIRMED THAT SIGNIFICANT CHANGES GERMAN GOVT CAPITAL EXPORT FACILITIES UNDER ACTIVE PREPARATION. MEASURES DESCRIBED BELOW HAVE BEEN APPROVED THIS WEEK IN PRINCIPLE BY ECONOMIC CABINET. IF APPROVAL OF CHANCELLOR AN DULL CABINET CAN BE GAINED BEFORE OCTOBER 3, LIKELY ERHARD MAY FEEL HE CAN REVEAL GIST THESE PLANS AT NEW DELHI.

DETAILS AND EVEN SOME MAJOR FEATURES NOT YET FIRM, BUT INTER-MINISTERIAL DISCUSSIONS APPEAR BE PROCEEDING FOLLOWING GENERAL LINES:

(1) FACILITIES FOR EXTENDING FOREIGN CREDITS WOULD BE EXPANDED BY GIVING INCREASED ROLE TO KFW. KFW WOULD FLOAT BOND ISSUES ON GERMAN CAPITAL MARKET IN VOLUME OF DM 1 BILLION OR UPWARDS DURING NEXT YEAR. AUTHORITIES PRESENTLY BELIEVE THIS COULD BE DONE AT FAVORABLE INTEREST RATES (PERHAPS 5 PER CENT) WITHOUT REQUIRING SPECIAL GOVERNMENTAL GUARANTEES AND WITHOUT ENGAGING ASSETS OF BUNDESBANK. LOAN PROCEEDS WOULD BE USED FOR EXPORT CREDITS AT LONG TERM. KFW FINANCING OF THIS TYPE 1957 WAS ONLY 73 MILLION.

(2) COUPLED WITH FOREGOING, GERMANS CONSIDERING ESTABLISHING TWO NEW TYPES AUTHORITY FOR HERMES CREDIT INSURANCE CO. IN ADDITION PRESENT GUARANTEE EXPORTER CREDITS, FACILITY WOULD BE OFFERED FOR GUARANTEEING BANK LOANS NOT TIED SPECIFIC EXPORT TRANSACTIONS AS WELL AS DIRECT INVESTMENTS ABROAD.

STEPS DESCRIBED PARA (2) WOULD REQUIRE LEGISLATION AND BUDGETARY AUTHORITY AND COULD PROBABLY NOT COMMENCE BEFORE NEXT SPRING. ERHARD PRESSING FOR EARLIEST AGREEMENT BROAD PRINCIPLE NEAR FUTURE.

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